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CO-OP ELECTRIFICATION ADVISER TRAINING OUTLINE

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**ESTABLISHING
MEMBER OWNERSHIP**

REA

PURPOSES OF THIS OUTLINE

This is one of a series of outlines prepared by REA as an aid in planning and arranging training schools for co-op electrification advisers. Each outline deals with a power use subject or with some aspect of cooperative principles and practice or with a particular method or technique of getting information to people. These are the three principal fields in which electrification advisers need to be skilled. Each booklet contains both suggested subject matter and suggestions as to how the material might be presented, with an indication of a suitable time schedule. The booklet is

thus useful as a guide to committees in charge of training schools, as an aid to the instructors, and as a subject matter manual that may be distributed to participants at the close of a training session for study and future reference. Subjects available or in preparation are listed below by title and number. *It is suggested that committees planning such training schools keep in mind the need of training in all three types of subject matter and, insofar as practicable, make use of the outlines in a balanced combination.*

LIST OF SUBJECTS

An ORIENTATION OUTLINE (unnumbered) covers all three fields of information. It is to provide the subject matter for an initial school that will give co-op officials basic background information and an understanding of the nature and scope of the educational job to be done.

NO.	POWER USE SUBJECT	NO.	CO-OP SUBJECT	NO.	METHOD OR TECHNIQUE
1	Farm and home Wiring	100	Value of Co-op Membership	200	Getting News to Members (Newsletters and State Paper Columns)
2	Farm Motors				
3	Water Systems and Plumbing	101	Integrating Power Use and Co-op Education	201	Using the Radio
4	Electric Ranges			202	Co-op Reports and Non-periodical Publications
5	Laundry Equipment	102	The REA Program and Co-ops	203	Making Effective Talks
6	Poultry Production			204	Demonstration Techniques
7	Refrigerators, Home Freezers, Walk-Ins	103	The Electric Co-op — What It Is	205	Methods and Results of Adult Education
8	Small Appliances	104	The Co-op Movement — Here and Abroad		
9	Dairying				
10	Pig Brooding	105	Co-op Bylaws	206	Effective Meetings
11	Farm, Home and School Lighting	106	Establishing Member Ownership	207	Photography and Motion Pictures
12	Farm Shop	107	Assuring Member Participation	208	Working with Newspapers
13	Pump Irrigation			209	Exhibits and displays
14	Garden Watering	108	Co-op Tax Status	210	Working with Rural Youth
15	Electric Hotbeds	109	Annual Meetings	211	Working with Community Organizations
16	Elevating, cleaning and grading farm crops	110	Co-op's Place in the Community		
17	Drying grain, hay, peanuts, etc	111	Cooperation Between Co-ops		
18	Heating, cooling, ventilating				
19	Cleaners, dish washers				
20	Kitchen planning				

Suggested Program and Procedure

ESTABLISHING MEMBER OWNERSHIP

In a co-op the consumer's interest and the owner's interest are combined. But while everyone who uses electricity knows he is a consumer, and acts accordingly, members of rural electric co-ops don't all realize they share ownership in the electric system which serves them. Capital credits can be used by co-op management to give members evidence of their share in the ownership of their co-op.

Suggested Procedure: The following outline shows how this subject might be presented in a one-day program at a co-op electrification adviser training school. While this outline was prepared specifically to help electrification advisers in their work with members, it should be equally valuable to all co-op leaders and REA personnel concerned in explaining capital credits. The topics would be developed largely through group discussion after brief presentations by persons expert in the various subjects. The outline suggests several devices for stimulating discussion.

Discussion Leader: The day's discussion leader is important to the successful development of this subject. He should be generally familiar not only with co-ops but also with the REA program. He should have had experience in stimulating and guiding group discussions. Someone in the Statewide organization who has the required training and has shown special interest in member education is a good possibility. If you cannot locate a suitable person in your State or region, REA may be able to furnish someone to serve as leader.

Program Chairman: No doubt you will have someone to serve as general chairman for your entire conference. This person -- or someone selected to serve only for this particular day's program -- will be of great help to the discussion leader, particularly if he is an old-timer in the co-op movement.

Subject Matter Outline: Although the subject matter should be developed largely by the group, it is desirable for the leader, as well as the program speakers, to have a prepared subject matter outline as a guide, so as to make sure that no major points are overlooked in the discussion. Such an outline follows this suggested program outline. Extra copies of the subject matter outline for all participants can be supplied by REA. In general, it will probably be found that the participants contribute more to the discussion and get more out of the meeting if the subject matter outline is mailed to them some days in advance of the meeting.

Suggested Program and Procedure (Cont.)

ESTABLISHING MEMBER OWNERSHIP

Morning Session

<u>Time</u>	<u>Topic</u>	<u>Speaker or Leader</u>
9:00	Opening Remarks: Statement of purpose and introduction of participants.	Chairman.
9:30	Talk: " <u>What Kind of Ownership?</u> " Comments from participants should be encouraged by the speaker. Use of a blackboard may help clarify points.	Someone familiar by long experience with the financial and ownership structure of various types of co-ops.
10:00	Talk: " <u>Capital Credits -- What Are They?</u> "	Someone completely familiar with capital credits.
11:00	Recess.	
11:15	Panel Discussion: " <u>Advantages of Capital Credits.</u> " The significance of capital credits should be developed from the viewpoints of members, of management, and of the non-member public. After a five-minute presentation by each member of the panel, questions and comments from other participants should be encouraged.	Discussion Leader for the day as chairman; panel of three co-op directors and managers who are familiar with capital credits.
12:00	Recess for lunch.	

Afternoon Session

1:30	Talk: " <u>Members' Misconceptions about Co-op Ownership.</u> "	Director of one of the participating co-ops.
1:50	Group Discussion: " <u>Some Questions about Capital Credits.</u> "* This should be an opportunity to bring out the details of the capital credits plan and how the plan works.	Discussion Leader for the day.
2:30	Talk: " <u>How To Explain Capital Credits to Members.</u> "	A co-op leader familiar with techniques of a member education program.

*One effective way of getting participation of those present and at the same time measuring the accomplishments of this subject is the following: After "Opening Remarks" at the start of the morning session, pass out slips and ask each person to write one question about capital credits or co-op ownership in general. At the conclusion of the afternoon Group Discussion on "Some Questions about Capital Credits", read these questions one by one to see if they have been answered in the talks and discussions already presented.

Suggested Program and Procedure (Cont.)

<u>Time</u>	<u>Topic</u>	<u>Speaker or Leader</u>
2:50	Recess	
3:05	Work Session: " <u>Informing the Members.</u> "	Discussion Leader for the day.
	Participants should be divided into groups of two or three persons to develop actual projects for use in their own co-ops, or each one may select a project to prepare individually. A list of suggest projects is provided in the Subject Matter portion of this Outline.	
4:05	Group Discussion: " <u>Effectiveness of the Projects.</u> "	Discussion Leader for the day.
	Projects developed by participants during the preceding Work Session should be presented and criticized from the standpoint of practicability and effectiveness in establishing understanding of member ownership.	
4:45	Summary and Conclusion	Chairman.
5:00	Adjourn.	

REA personnel may be obtained upon request to serve as speakers or discussion leaders and to assist in planning of Training School programs.

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END OF PROGRAM. SUGGESTED SUBJECT MATTER OUTLINE FOLLOWS.

Suggested Subject Matter

ESTABLISHING MEMBER OWNERSHIP

The following specific subject matter suggestions are intended as a check list to aid the chairman, discussion leaders and speakers in preparing their material for the program, and should also be found useful by participants.

Topic I. "What Kind of Ownership?"

A. Effective ownership is important in the REA program.

1. In a co-op the people who use the service also own it.
2. Along with ownership goes control over rates and quality of service.
3. Ownership encourages responsibility.
4. Widespread local ownership of the rural electric system represents an important security factor for justifying the Government loan.

B. There are two types of ownership in America: private, and public. Both types are found in the ownership of utility systems.

1. Private ownership is represented by commercial, profit-making enterprise, and by cooperative, non-profit enterprise.

a. Commercial ownership of utility systems is the most common and well-known type in most parts of the country. May be in any one of three forms:

- (1) Individual ownership -- frequently found in small telephone systems, but rare in other utilities;
- (2) Partnership -- a few smaller systems are owned by two or more partners;
- (3) Stock corporation -- most common form and especially favored for large systems because of its many advantages:
 - (a) Limited liability of owners;
 - (b) Capital-raising possibilities;
 - (c) Relative permanence.

b. Cooperative ownership has been used widely and for many decades in establishing telephone systems and irrigation service. Rarely found in other utilities, except electric. Since start of REA program in 1935, rural electric co-ops have increased in number, members, and service, until they now provide a little more than half of all farm electric service in this country.

Suggested Subject Matter (Cont.)

All REA electric co-ops and telephone co-ops -- and most co-ops of other types -- are incorporated in order to obtain protection provided by state laws.

2. Public ownership of utilities is most often found in urban water systems. Many municipalities also have publicly owned electric systems and other services. In some areas, such as the Pacific Northwest, the Northern Plains states, and the Tennessee Valley, people are strongly sympathetic to public ownership of electric service and other utilities.
 - a. The Federal Government neither owns nor operates electric distribution facilities except in a few special Government reservations. Federally built and owned generating plants, however, make up 13 percent of the total electric power supply in the U. S. and furnish 25 percent of the wholesale power supply for co-ops.
 - b. Public utility districts (PUD's) covering areas of varying size have been set up in several of the western states which have enacted special legislation for this purpose.
 - c. Municipal electric distribution systems are found in all parts of the country; they number about 2,000.
- C. Rural electrification shows a great growth since 1935 (when REA was created) that has been accompanied by a great development of local ownership.
 1. At the beginning of 1935:
 - a. 743,954 farms or 10.9 percent of all the farms in this country received central station electric service.
 - b. Practically all of these distribution lines were owned and controlled by commercial power companies. These lines had been built into suburban areas and along main highways which represented the richest and most profitable areas. Lack of interest by commercial companies in doing a real area coverage job in America's farm regions was demonstrated by a report prepared by spokesmen for the electric power industry in July 1935, which stated that ... "there are very few farms requiring electricity for major farm operations that are not now served."

Suggested Subject Matter (Cont.)

2. By mid-1950:

- a. 5,053,676 farms or 86.3 percent of all the farms in this country received central station electricity. This is truly amazing progress in the span of barely more than 15 years.
- b. Equally significant is the change in the ratio of ownership during this period. As of the end of June 1950, 2,551,000 farms or a little over half of all the farms receiving central station electricity were being supplied by distribution systems which the farmers themselves owned and controlled.

3. Local ownership of rural electric systems, through use of non-profit, privately owned cooperatives, is a most significant development, especially when compared to the general trend toward concentration of industry and even farms into ever bigger corporations, with ownership and control more and more removed from the people who need and use the services.

D. Although there are many kinds of co-ops, they are alike in purpose.

1. All co-ops are organized and owned and operated by people who desire to serve their own needs themselves instead of paying somebody else to do the job.
 - a. There are two immediate implications:
 - (1) They will provide themselves with the best possible service;
 - (2) They will serve themselves at cost, since there would be no point in making a profit from themselves.
 - b. In all co-ops, payments for service above the cost of service represent an overpayment and in reality belong to the patrons — who are the owners and members — in proportion to their patronage.
 - c. In order to serve the purpose for which they were formed, co-ops operate in accordance with principles of cooperative business which have been tried and tested for over a hundred years. Those which affect ownership are the following:

Suggested Subject Matter (Cont.)

- (1) One member -- one vote. In a co-op each owner has an equal voice in controlling the business.
 - (2) Open membership. In a co-op any person who wants to share in the patronage and ownership of the business can become a member.
 - (3) Limited interest on investment. Members who invest money in a co-op enterprise usually do so to assure for themselves its continued service rather than to obtain a return for invested money. Some co-ops pay no interest at all on capital built up through patronage. REA electric co-ops, which obtain their initial capital from the Government in the form of a loan, are in this category.
 - (4) Non-profit principle. In a properly organized and operated co-op anything remaining after costs of service are taken care of is credited to the patrons on the basis of the amount of their patronage.
 - (5) Constant education. Because members must be kept fully informed about their business, if they are to be responsible owners and make wise decisions, co-ops have found it essential to carry on a program of member information and education.
2. In general, rural electric co-ops conform to the organizational pattern of other types of co-ops.
 - a. The thousand REA-financed co-ops which operate in all but three states were organized and are operated by rural people who desire to obtain dependable central-station electric service.
 - b. All of them are incorporated, generally under the cooperative laws of the respective states, and their bylaws usually provide for as much cooperative functioning as the law will permit.
 3. There are some people who see quite a little difficulty in making a co-op operating in the utility field a true co-op.
 - a. Some believe that essential utility services should be operated under public ownership rather than by private enterprise, whether commercial or co-op.
 - b. Others fail to distinguish between a user-owned utility operated by and for the patrons at cost, and a commercial utility owned and operated by and for the benefit of a group of investors who are generally not patrons of the utility.

Suggested Subject Matter (Cont.)

E. The main difference between REA co-ops and other types of co-ops is found in the financial structure and the way in which patrons' overpayments are handled.

1. The typical farmers' marketing or purchasing co-op requires a relatively small capital investment in proportion to its annual business.

a. The members put up a substantial part of the capital needed when they start the business. This means, in turn, that such a co-op needs to borrow relatively little money from outsiders and therefore has no heavy loan repayments to meet.

b. If it finds at the end of the year that its charges for services to its patrons have been in excess of the cost of service, it can return most of that difference to them as patronage refunds, either immediately or at least within a few years.

2. An electric co-op, on the other hand, requires a relatively high capital investment per member. The annual business turnover amounts to only a fraction of the cost of its facilities.

a. REA co-ops are financed one hundred percent with an REA loan. In other words, the members have made no initial capital investment in their REA co-op aside from the small membership fee.

b. It follows that amounts paid in by members above the cost of services are needed to pay back the Government loan. Since the money representing overpayments for service is applied toward reducing the indebtedness to the Government and cannot at the same time be repaid to the consumers as cash patronage refunds, a system of capital credits has been developed.

Topic II. "Capital Credits -- What Are They?"

A. The idea.

1. Rural electric co-ops are based on the proposition that the people who use the service are also its owners.

2. Under the REA loan program the co-op members are not required to put up initial capital. But the loan capital borrowed from the Government must be paid back. To do this the co-op collects from its patrons not only the money needed to pay the actual costs of service, but also amounts which can be used toward repayment of the REA loan. These extra amounts are in effect capital furnished by the patrons.

Suggested Subject Matter (Cont.)

Instead of making a substantial original investment, each member builds up his individual share in the ownership of the co-op on the installment plan. Obviously, each member should receive full credit for the capital which he supplies.

3. In simplest terms, then, capital credits is a plan for recognizing and accounting for each member's individual capital equity in his co-op.

B. Definition.

Capital credits is based on a legal agreement set forth in the co-op by-laws, that amounts paid by the patron to his co-op in excess of the cost of service will:

1. Be credited to his account as patronage capital furnished by him;
2. Be repaid on a revolving plan, when the financial condition of the co-op justifies it.

C. How the plan works.

The two factors which determine whether there are any capital credits to be assigned and what amounts are available for such assignment are, first, the gross operating revenue which is what the members have paid for service, and second, the cost of that service. If the cost is less than what the members paid, then there is a net margin which belongs to the members and is to be credited to them as patronage capital. This is done on an annual basis.

1. The first figure -- gross operating revenue -- is made up of the total of the members' billings for the year.
2. The second figure -- cost of service -- is made up of all of the items which any utility business includes in figuring its cost of service. It includes, for example, an allowance for depreciation, and the interest on the REA loan. But it does not include any repayments made on the principal of the REA loan because the payment of a debt is not considered a business expense either legally or from an accounting standpoint.
3. At the end of the year, co-op management subtracts cost of service (item 2 above) from gross operating revenue (item 1 above). The remainder is the net margin which is to be assigned to the patrons as capital credits.

Suggested Subject Matter (Cont.)

4. To determine each individual's credit, the net margin is calculated as a percentage of the total receipts in payment for electric service. This percentage is then applied to each patron's bills during the year.

Example: If the co-op took in \$100,000 and cost of service was \$90,000, the overpayment (net margin) was \$10,000. This would be a 10 percent patronage credit. Applied to each individual patron's bills for the year, someone who had paid \$100 for his electricity would have \$10 to his credit, while someone who had paid \$65 would have \$6.50.

5. In other types of co-ops this amount would be called a patronage refund and would be returned to the member or patron in cash or be held for a short period as revolving capital, in accordance with the wishes of the membership as expressed in the bylaws.
6. However, since the REA co-op is obliged to repay to the Government the initial capital which it borrowed, it can't pay these amounts back to the members (and other patrons, if any) in cash immediately.
7. The co-op therefore obligates itself to account for the individual's overpayment as capital credits. Of course, the co-op can use the money representing patronage capital --- for example, to pay off some of the loan capital borrowed from REA.
8. Capital credits accumulate in the individual capital credits accounts of the members in varying amounts depending upon how much the member paid for the electricity he used during the year, and depending upon how much of a net margin the co-op showed after taking care of all expenses for the year.
9. In any year in which the co-op had no net margin, it is obvious that there would be no capital credits to add to members' equity.

D. Revolving patronage capital.

1. When the financial condition of the co-op makes it feasible, the co-op may begin retiring some of its capital credits. Bylaws of most REA co-ops provide that no retirement may be made that will reduce the capital below 40 percent of the co-op's assets.
2. Any such retirements of capital shall be made in the order in which the capital was furnished and credited. In other words, the patronage capital first received by the co-op will be the first to be paid back.

Suggested Subject Matter (Cont.)

3. This results in a continuous process of revolving the capital in the co-op.
 - a. Even before the REA loan is fully repaid, cash funds may be used -- providing the co-op is in sufficiently sound financial shape -- to retire the earliest capital furnished by the older members.
 - b. As current members continue to supply new patronage capital, the earlier credits are paid back to the members in cash. The process is somewhat like water used to turn the wheel of a mill, new water being constantly taken from the stream to keep the mill going while the water that has been put to use is being constantly returned to the stream.

Topic III. "Advantages of Capital Credits."

A. What do they mean to members?

1. Adoption and use of the capital credits plan assures service at cost, since the bylaws will then specifically provide for crediting to members' patronage capital accounts any amounts received from them by the co-op in excess of operating expenses.
2. By doing this, the plan maintains and reflects accurately the non-profit status of the co-op.
3. Through capital credits, members build up their individual share of equity in the co-op. This is done by using the small over-payments from members as capital rather than by immediately returning these amounts as cash patronage returns. Thus members are able to buy their electric distribution system on the installment plan.
4. Capital credits will be paid back eventually in cash. The provisions of the bylaws, board policies, and the financial status of the co-op determine when capital credits will be paid back to the patrons.

B. What do they mean to management?

1. Capital credits enables the business to be operated for the member owners without the necessity of raising large sums of initial capital from them.
2. The use of the capital credits plan gives management the periodic opportunity for reminding members of their ownership share in the system and of the need for their continued interest, participation and responsibility for economical operations.

Suggested Subject Matter (Cont.)

3. The annual notification of capital credits entered on members' patronage capital accounts shows the member what part of his bill is payment for his electric service and what amount is capital. The actual cost of service is then seen to be lower than it had seemed.
 4. Cooperation by members in keeping down operating costs, because the capital credits plan assures members of all benefits from such savings.
 5. Protection of co-op property by members when they have tangible evidence of their individual share in ownership.
 6. Understanding of members in times of emergency, and loyal cooperation with management by members who understand the value of their ownership interest in the co-op.
 7. Strengthens the co-op's financial position.
- C. What do they mean to the non-member community?
1. The non-member public has not been told much about co-ops and therefore lacks correct understanding of either patronage refunds or capital credits.
 2. The significance of capital credits in community relations is that it builds up private local ownership, thereby enriching the community as well as the rural people who trade with "Main Street," instead of draining wealth out of the community into distant financial centers.

Topic IV. "Misconceptions about Co-op Ownership."

- A. When little or no effort is made to give people the facts about co-ops, many wrong ideas take root and grow in the minds of members and the general public.
- B. Some of the most common misconceptions are about co-op ownership.
 1. Here are some false impressions about who owns the rural electric co-ops:
 - a. "The Government owns them." "REA owns and operates them."

This is due, in part, to overuse of the phrase "The REA" by co-op employees and officials — on the telephone and in newsletters, radio programs, truck signs, etc. — instead of using the name of the co-op and instead of using the REA symbol together with the CO-OP symbol.

Suggested Subject Matter (Cont.)

It is also due to the fact that most people know only half the story about REA co-op financing. They know that REA put up the money originally, but they don't know that this is only a loan and that the co-op pays it all back to the Government with interest.

b. "The manager owns it."

This misconception occurs only in the rare case where a manager acts as if he owned the co-op and where the members have been kept in ignorance of their rights and responsibilities of ownership.

c. "The board owns it."

If any board gives that impression, it surely cannot count on loyal member support when difficulties arise.

d. "They own it."

If that comes from a member, it shows that he has no feeling of co-op ownership. "They" is a nebulous clique of "other" people whose interests and opinions and abilities are quite different from your own. If you are a practical farmers, "they" are starry-eyed visionaries. If you are something of an idealist, "they" are selfish-minded money grubbers. If the lights go off during a storm, "they" are to blame. If a maintenance crew is clearing brush where the high line crosses your property, "they" are a nuisance. If your bill seems high, "they" must have made a mistake. A good member education program and regular notice of allocation of capital credits do a lot to help members discover that "they" are "we."

2. Many people feel that cooperative ownership is somehow not practical.

a. "Everybody's business is nobody's business," is the expression quoted by critics who think that, where many people own a business jointly, no one takes the responsibility and the business will fail or fall into the hands of a few people.

To counter this, every electrification adviser, as well as every manager, every director, and every thinking member, has an individual responsibility to make sure that the information program of the co-op does the following tasks effectively:

Suggested Subject Matter (Cont.)

- (1) Convinces the member that he must, as an owner, keep himself fully informed about his business;
- (2) Bring the member to the annual meeting;
- (3) Get the member to vote according to his own best judgment in electing directors;
- (4) Help the member to use his co-op power profitably;
- (5) Sell the member on the need for protecting his co-op property.

b. Another wrong conclusion is one that goes like this:

"In a co-op each person thinks he is boss -- how can you please everybody?"

This misconception can best be corrected by an understanding of the basic principles of cooperative business. In any well-organized co-op, authority is delegated from the members to the board, and from the board to the manager, and responsibility is from the manager to the board, and from the board to the members.

3. Members of co-ops who have not had the benefits of a sound information program are often more concerned with "How much money do I get back?" than "How can I as the joint owner of this business help provide better service for myself and my neighbors?"

a. Some have an idea that a co-op is a cut-rate operation which gives some kind of a discount to members.

- (1) It is the object of co-ops to serve their members as economically as possible. If the members make sure that management is efficient, then members can usually serve themselves through their co-op cheaper than they can buy the services from somebody else who has to make a profit to stay in business.
- (2) Most consumer co-ops, at least in this country, sell at prevailing prices, and the overpayments of members are returned in the form of patronage refunds.

Suggested Subject Matter (Cont.)

- (3) Since there is no prevailing price for electricity, the REA electric co-ops set their rates at a level which will cover estimated cash obligations, including wholesale cost of power, expenditures for operation, maintenance and replacement, insurance, taxes, and principal and interest payments on the loan from REA. In many cases this is lower than the rates charged by commercially owned utility companies in nearby areas. In other cases the co-op rate may be a little higher because the co-op serves the thinner territory, but the members know that without their co-op they would not have service at any price.
- (4) Members should be helped to understand that the rates at which they pay will, in time, not only take care of the cost of service but will also help build up personal equities for them in the net worth of the co-op, at the same time that the REA loan is being paid off.
- (5) Therefore, the member's electric bill may not be any smaller than it would be if he lived in the area of a commercial company. The biggest single factor is the wholesale cost of power. If it is cheap, as it is in the TVA area or around Bonneville dam, then the patron's electric bill is less. In a co-op which has to buy its power from a commercial company, particularly in a high-cost area such as New England, the power bill is probably high.
- (6) In any case, members need the facts about capital credits so that they will understand that they cannot get any cash back immediately

Topic V. "Some Questions about Capital Credits."

Since the electrification adviser will be expected to answer many questions about capital credits both before and after his co-op has placed the plan in operation, it is well to anticipate what some of those questions may be.

- (Q.) Why do we need the capital credits plan? Aren't we getting along well enough without it?
- (A.) If you belong to a co-op which is operating with a net margin, you are doing very well financially. You are not only covering expenses but you are also building up local ownership in your properties -- but without making clear any identification of individual members' interest in these assets. A truly nonprofit co-op is legally responsible for returning overpayments in cash or for appropriately crediting them to the individual capital accounts of the members.

Suggested Subject Matter (Cont.)

Even if your co-op is one of those which is not yet showing a margin, you expect operations to improve. You will want your co-op to be prepared for properly assigning overpayments when that time comes.

(Q.) Will each member be credited with the same amount of capital on the co-op books?

(A.) No. Each member will get capital credits in proportion to his payments for electric service during the year. If a co-op has received from all of its patrons \$100,000 in payments of electric service, and if the cost of providing the service was only \$90,000, then 90 cents of every dollar was paid to cover the cost of electric service and 10 cents was furnished as patronage capital. Therefore, a patron whose service bills totalled \$200 will be credited with \$20 on his patronage capital account. A patron whose electric bills totalled \$60 will be credited with \$6 on his patronage capital account on the co-op books.

(Q.) You said a "patron." Don't you mean a member of our co-op?

(A.) Not necessarily. The capital credits plan applies to all patrons, regardless of whether they are members or non-members.

(Q.) Why should non-members be given capital credits?

(A.) Because they furnish capital just the same as the members. If they were not given credit for such capital, the co-op would make a profit from serving them. In that case, the co-op would lose its non-profit status.

(Q.) What is the advantage of being a member if non-members get the same benefits as members.

(A.) There are several important advantages. Non-members have no share in the control of the co-op, nor a voice in determining co-op policies. They cannot hold any office in the co-op. While they are entitled to credit for any capital which they furnish, they do not have any share in the other assets of the co-op, as do the members.

(Q.) Will capital be credited to the patrons every year?

(A.) Capital will be credited to patrons only for a year during which the amounts received by the co-op for electric service were greater than the cost of rendering service.

If in any year the amounts received were less than the co-op's expenses, no patronage capital has been furnished in that year and no capital credits can be given to the patrons.

Suggested Subject Matter (Cont.)

(Q.) If a co-op loses money in any year, will each patron be charged with any portion of the operating deficit?

(A.) No, there will be no assessment on the patrons individually for any operating deficit. Of course, the operating deficit will have to be shown on the co-op's books; otherwise the books would not give a true picture of the co-op's financial condition. But that can be done without any change in the individual equity accounts. Operating deficits would merely delay the time when the co-op could begin paying back capital credits in cash.

(Q.) Will I ever get back any of the patronage capital I furnish my cooperative?

(A.) Yes. When your co-op has accumulated enough money to insure financial stability, your co-op board can authorize the repayment of patronage capital, probably in the order in which it was received. From that time on, assuming that the patrons continue to furnish enough capital each year, your co-op can probably retire each year the oldest outstanding capital credits. In this way, the financial ownership of the co-op will at all times be as much as possible in the hands of those currently using the service.

(Q.) When will the first retirement of patronage capital be made?

(A.) That depends on how efficiently and economically your co-op operates. It will be good business, of course, to pay off the Government loan as rapidly and as early as possible. Some co-ops will be in a position earlier than others to begin returning capital to patrons who furnished it.

(Q.) What will my co-op do with the actual money with which I am credited? Keep it on deposit in the bank as a cash reserve for a rainy day?

(A.) Most of it will be needed to help repay the REA loan. Therefore, it will to a great extent be represented by investments in poles, wires, transformers and the like. Any sums not used for loan retirement will be available for any legitimate capital need.

(Q.) What happens if I move out of the area?

(A.) No distinction in paying out capital credits should be made between those who continue to live in the service area and those who move out. If you leave your correct forwarding address at the co-op office, you will eventually receive your capital credits payments just as though you continued to live in the service area.

Suggested Subject Matter (Cont.)

- (Q.) In the event of my death, can capital credits be paid to my family?
- (A.) Yes. The bylaws of most co-ops provide that the board may vote immediate repayment of capital credits to the family on the death of the member, under certain conditions.
- (Q.) Can I look forward to getting any large sums of money when my capital credits are retired?
- (A.) You should look forward to getting back as much capital as you paid in. The amounts are likely to be modest, and there is a good reason for this. Your co-op does not ask you to make any larger payments than are absolutely necessary to the good conduct of your business. Remember, the co-op does not operate for profit. Therefore, should capital credits become larger than the directors of your cooperative believe necessary, they will consider it good management to lower your rates. They may consider it better to have lower rates than to accumulate an excessive amount of capital credits. The capital credits plan will not prevent nor interfere with any rate reduction which a co-op board might find feasible and desirable.
- (Q.) If I am one of the original members of our co-op, why should I vote for this capital credits plan? Isn't it unfair to us old members, who worked hard to get the co-op going, to let the new members build up capital credits while we got no capital credits for the first few years just because we had too few members to enable the co-op to operate without a loss?
- (A.) As an original member of your co-op, you had the benefits of electricity much earlier than the newcomers. If your co-op operated at a loss during those early years, you were actually getting service at less than cost, with the loss being borne entirely by the co-op.
- Remember that the patronage of these new members has helped to bring operating costs down so that there can be a net margin which means capital credits for all, including yourself. As an original member you did not take a real financial risk because the entire cost of the system was financed with a Government loan. Therefore, the capital credits plan is eminently fair to the original co-op members.
- (Q.) Why can't our co-op put the capital credits plan into effect by a resolution? Why must our co-op bylaws be amended?

Suggested Subject Matter (Cont.)

- (A.) For legal reasons your co-op will find it advisable and necessary to have an agreement which has the force of a contract between the co-op and its patrons. The proposed bylaws provision will meet that requirement. It will assure that you will have credited to you as capital any amounts paid by you for electric service in excess of the cost of serving you. That is why it is very important for every member to vote for the capital credits plan, so that he can be sure of service at actual cost, and can establish a personal equity in proportion to his patronage.
- (Q.) How many rural electric co-ops have adopted capital credits?
- (A.) Almost two-thirds of the REA co-ops have adopted capital credits. In addition, there are the co-ops of Iowa which have a similar plan provided by state law.
- (Q.) Do I have to pay personal income taxes on capital credits assigned to me?
- (A.) Farmers who deduct the cost of electricity as a business expense should either reduce their deduction for this item by the amount of their capital credit or add the capital credit to income. Capital credits received on payments for electricity not used for business purposes and therefore not charged to business expense should be omitted from the tax return. For tax purposes, capital credits are considered paid to you when credited to your account.

Topic VI. "How To Explain Capital Credits to Members."

A. Suggestions.

1. Start with the basic idea (see Topic II B) which is easy to understand. Don't get involved in accounting procedures and details which will only confuse the layman.
2. Keep explanations simple and clear.
3. Reach new members right away while they are still receptive to information.
4. Making sure that the members understand capital credits is not a one-time job. It must be a continuing part of the power use and member education program.
5. Don't oversell. Exaggeration of benefits from capital credits, and particularly promises of quick financial returns, will only cause later disappointment among the members and is therefore harmful to the co-op.

Suggested Subject Matter (Cont.)

B. Techniques.

1. Financial report. The simplified financial report given to members should list the amounts which are to be credited to members' accounts as "Patronage Capital," "Members' equity," "Capital Credits to members," or some similar descriptive term instead of "Net profits" which is not in conformance with facts. "Net margin available for Capital Credits" is also an acceptable term.

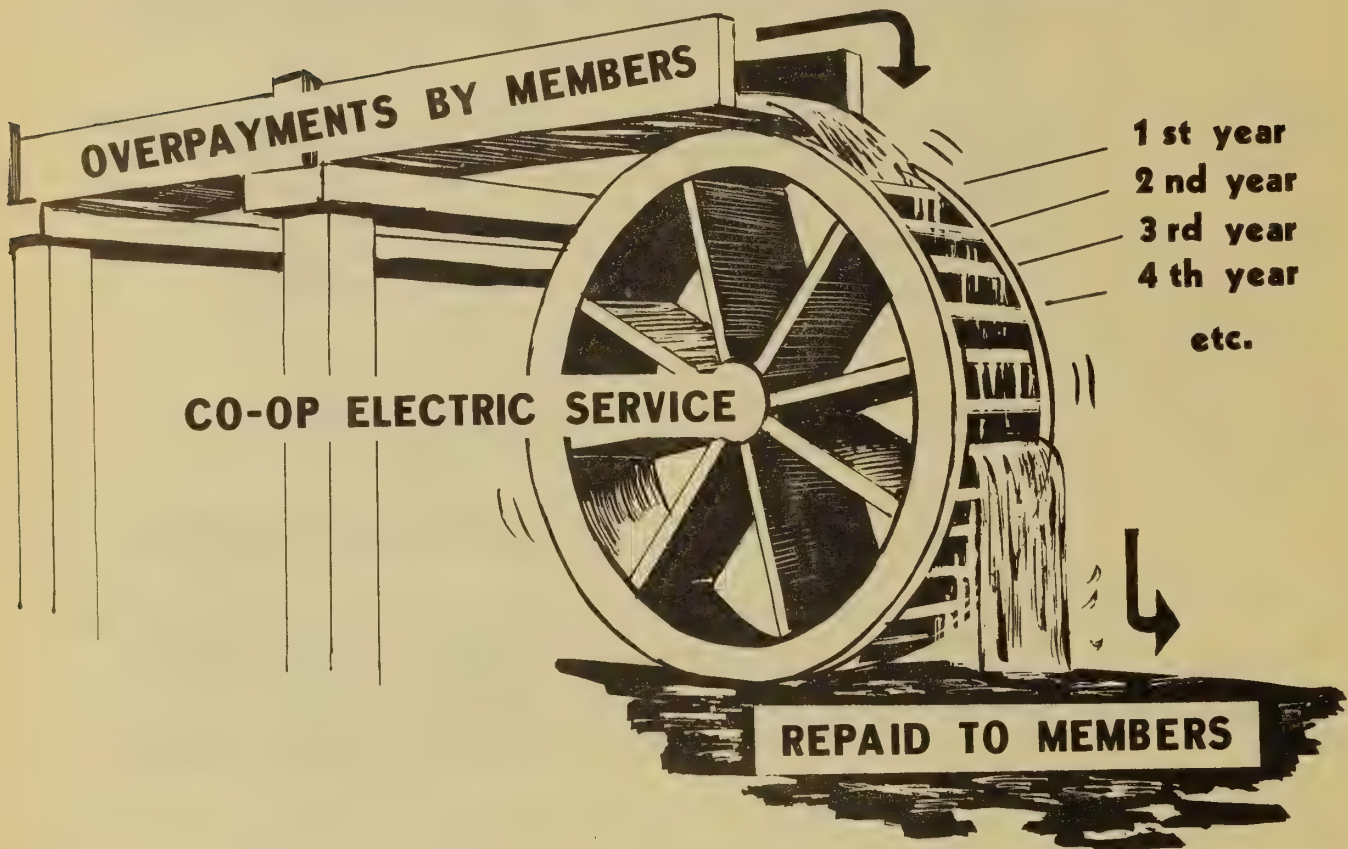
Members should receive the co-op operating statement and balance sheet. Distribution of a readily understandable annual financial report to all members is a major responsibility of board and manager.

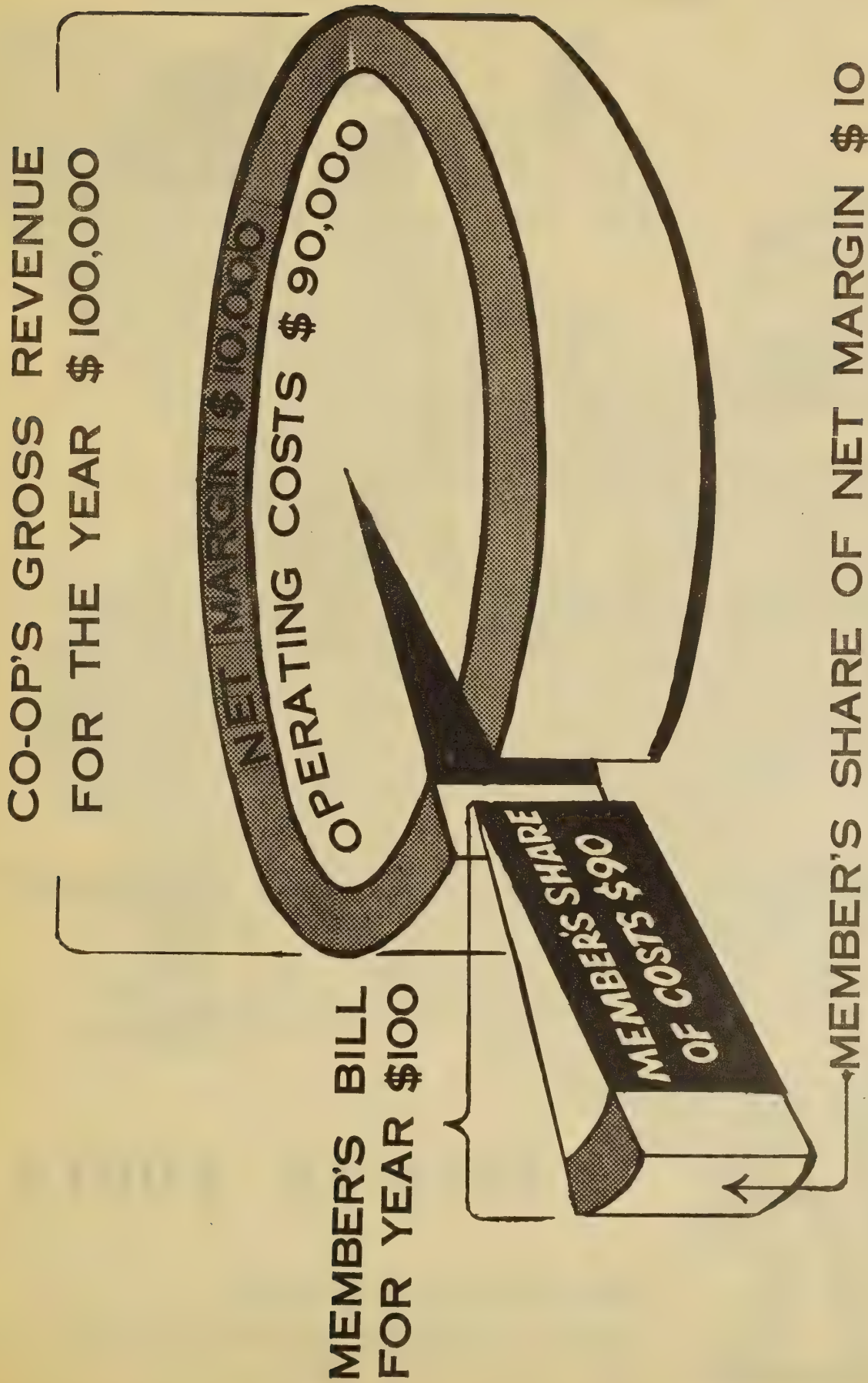
2. Annual notification of member's equity. Each year members should be sent a statement of the new amount added to the member's capital credits account. This statement can also give his accumulated total. This is a good opportunity for further information to be sent out on significance of capital credits and responsibilities of ownership.
3. Newsletters.
 - a. Short stories from time to time on benefits and responsibilities of member ownership.
 - b. Pictures of substations, buildings and other co-op property show members what their ownership includes.
4. Charts, posters, and exhibits. More effective than leaflets and talks on capital credits, although these will also be useful. Here are some ideas for charts, posters, and exhibits which can be adapted to the needs of your co-op. Use photos, sketches, and data of your own local system.

Suggested Subject Matter (Cont.)

a. Waterwheel illustration of revolving capital.

YOUR CAPITAL CREDITS KEEP THE WHEEL TURNING

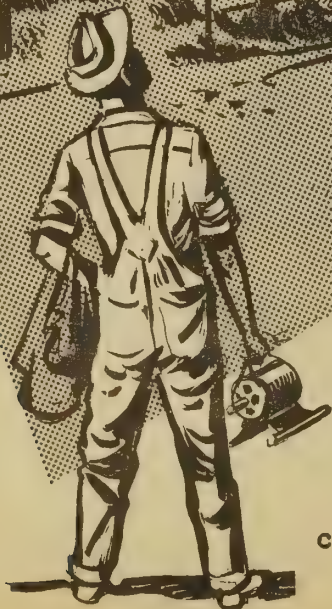
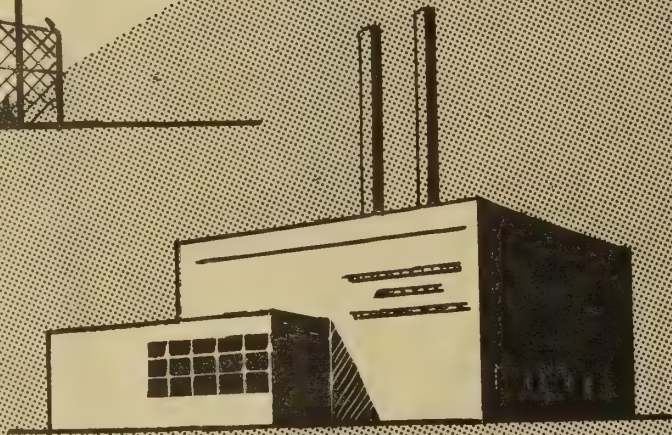
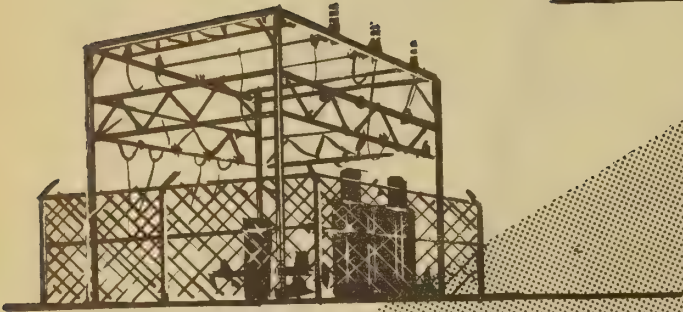




Suggested Subject Matter (Cont.)

b. Pie chart to show patron's share of capital credits.

Take care of them . . .



they're yours

Suggested Subject Matter (Cont.)

- c. Poster or system map with pictures of what the members own through their co-op.

Suggested Subject Matter (Cont.)

d. "You have paid for many businesses -- this one you own."

FARMERS HAVE PAID FOR MANY BUSINESSES,



THIS ONE THEY REALLY OWN!

Suggested Subject Matter (Cont.)

5. Tours of system useful to show member what he owns jointly with other members.
6. Question and answer leaflets.
7. Neighborhood round-table discussions.
8. Members should receive bylaws, preferably with a brief explanatory statement.
9. Certificates of membership.

Topic VII. "Informing the Members."

Suggested projects to be prepared during the work session:

1. Prepare a leaflet for members to be mailed out with notification of assignment of capital credits to members' individual equity accounts.
 - a. This should be short, not over a page when completed.
 - b. Presentation should be attractive (easy to read).
 - c. Approach should be definite, not obscure and of the "beat around bush" type.
2. Write a newsletter story explaining why the co-op pays no Federal income tax on capital credits.
3. Sketch plans for a chart to be used at the headquarters office which will help clarify the patron's share in capital credit.
4. Sketch plans for an exhibit suitable for an annual meeting, fair booth, or window display, to explain the benefits of member ownership in the co-op.
5. Prepare for a meeting a report or talk which describes capital credits.
6. Write a leaflet about capital credits suitable for sending out to the members in preparation for a vote at the annual meeting on adoption of capital credits.
7. Prepare a talk to give before a civic club to explain how member ownership helps the community.

Suggested Subject Matter (Cont.)

Topic VIII. "Effectiveness of the Projects."

1. The projects prepared under Topic VII should be presented for the entire group. Display all visual work, give the speeches, etc.
2. What is basis for judging?
 - a. How convincing is it?
 - b. Does it answer doubts or just raise new ones?
 - c. Would it move you to action?
 - d. Is it accurate and truthful?
 - e. As a means of getting people informed, what do you believe its relative effectiveness to be, considering:
 - (1) How many people it would reach, and
 - (2) Its cost in terms of dollars and employee time as compared to the number of people reached.
3. Which of these projects can you use in your own co-op when you get home?

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